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MEASURED RESPONSE TO LATE CORN PLANTING

The lateness of corn planting in the eastern corn belt, the generally slow rate of emergence of the crop in many areas due to cool weather, and the potential of some switching of area intended for corn planting to other crops has generated only a modest corn price response to date. July 2002 futures traded below $2.00 in early May, moved above $2.15 in mid-May and settled at $2.05 on May 24. The average cash price of corn in central Illinois moved to as low as $1.84 in late April, traded to $2.03 in mid-May, and settled at $1.935 on May 24, only $.14 above the harvest time low. December 2002 futures demonstrated a similar pattern to that of old crop prices. That contract traded to $2.15 in early April and again in early May, moved above $2.30 in mid-May, and settled at $2.2125 on May 24.

The decline in prices since mid-May reflected drier conditions in parts of the eastern corn belt and expectations of improved planting progress by the end of the month. To some, particular in the wettest areas, the price rally seems fairly anemic given the potential impact of late planting on the national average yield. Why such a measured response to a late planting season? Fundamentally, there are likely a number of factors at play that have limited the price response. History shows inconsistent impacts of late planting on both acreage and average yield. In general, delayed planting beyond the first week of June has been required to stimulate a significant switch away from corn planting in the eastern corn belt. In addition, late planting has been followed by both “good” and “poor” average yields. Much depends on weather conditions from now through mid-October. Some of the impact of a late planting can be overcome by favorable summer weather conditions and a later than normal first freeze. On the other hand, stressful summer weather conditions or an early freeze can produce low average yields, regardless of the planting date. There is some tendency for those calculating potential yield loss based on the number of acres planted after certain “critical” dates to use an incorrect yield base as a starting point. Many use average trend yield as the starting point, rather than potential yield under ideal conditions. As a result, planting date yield loss calculations likely result in too low of a projection for the 2002 average yield. It is premature for the market to factor in a “low” yield for the 2002 crop.

Another factor at play may be the relatively large carry in the market. July 2003 futures, for example, are currently $.31 higher than July 2002 futures. For the central Illinois producer, the market is currently offering a 2002-03 marketing year average price of about $2.10 per bushel. That is about $.15 above the likely average price for the 2001-02 marketing year. A slightly tighter supply/consumption balance for 2002-03 is already reflected in the market.

For the next four month, the market will tend to react to the USDA's weekly crop progress and condition reports as well as weather forecasts. The USDA will release an *Acreage* report on June 28. Since the survey for that report is conducted in early June, the estimates for corn and soybean acreage will still reflect intentions for a portion of the crop. The market, however, will look for evidence of any acreage shifts or acreage abandonment. The estimate of total planted acreage may be as interesting as the estimates for individual crops.

Producers generally expect weather markets to produce some opportunities to price a portion of both the old and new crop at favorable levels. Those opportunities have not been very attractive to date. Pricing decisions, while always difficult, are especially challenging during a weather market. One approach is to consider an "averaging" strategy over the next 12 weeks. A portion of the new crop could be priced weekly, for example, during that period with the exception of capturing weather rallies on some of those sales. A strict averaging strategy could be modified in a number of ways, including establishing minimum trigger prices or varying the amount sold depending on the level of price. Rather than averaging, some may want to consider the use of options to establish a minimum price on a portion of the crop. Currently, minimum prices that can be established with options are below the expected loan rate. In addition, options have become a little more expensive due to increase volatility in the market. Those that are convinced that production will be significantly below the 9.9 billion bushels projected by the USDA, and that the market is currently making a mistake, need only have patience.

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